

**DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

For the years ended December 31, 2015 and 2014

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS

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816 N Washington
Junction City, KS 66441
(785) 238-5166
Fax (785) 238-6830

529 Humboldt, Suite 1
Manhattan, KS 66502
(785) 537-9700
Fax (785) 537-3734

505 NW 3rd, Suite 1
Abilene, KS 67410
(785) 263-2171
Fax (785) 263-3340

www.pgh-cpa.com

MEMBERS:
American Institute of
Certified Public Accountants

Kansas Society of Certified
Public Accountants



Pottberg, Gassman & Hoffman, Chtd.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Dickinson County, Kansas
Rural Water District No. 2
Abilene, Kansas 67410

We have audited the accompanying financial statements of the business-type activities of Dickinson County Rural Water District No. 2 (District), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the *Kansas Municipal Audit and Accounting Guide* and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and guidance require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Dickinson County Rural Water District No. 2, as of December 31, 2015 and 2014 and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and budgetary comparison information on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pottberg, Gassman & Hoffman, Chd.

POTTBERG, GASSMAN & HOFFMAN, CHARTERED
Abilene, Kansas
May 6, 2016

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2

ABILENE, KANSAS
DECEMBER 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Dickinson County Rural Water District No. 2 (District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the year ended December 31, 2015. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Statements

The attached financial statements present the assets and liabilities, revenues and expenses and changes in net position of the District on the accrual basis of accounting. The statements of net position provide information on all of the District's assets and liabilities, with the difference between the components presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as useful indicators of whether the District's financial position is improving or deteriorating.

The statements of activities and changes in net position present information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave). The statements of cash flows reverse the accruals to show the effect of the annual transactions on the available cash balance. Both the financial statements and supplemental information are shown comparative to the prior year.

Financial Highlights

The District's total assets increased \$121,331 from December 2014 to 2015.

The increase in capital assets, before depreciation, between December 2014 and 2015 was \$1,047,487 which was the net effect of additions of \$922,234 for the Phase II expansion, \$3,865 for computers, \$10,860 for a generator, \$45,613 for booster station improvements, and \$75,293 of other infrastructure improvements offset by asset disposals of \$10,378. Construction work in progress decreased \$732,464 primarily related to capitalization of the Phase III expansion project which was completed in July 2015.

Between December 2014 and 2015, deferred outflows of resources decreased by \$457 due to the amortization on the 2012 bond discount.

Total liabilities increased \$253,528 from December 2014 to 2015. Total current liabilities decreased \$40,087 primarily related to the payment of prior year accounts payable for the Phase III project. Total noncurrent liabilities increased \$293,615 which is primarily related to the receipt of \$288,133 for the Kansas Public Water Supply Loan. Principal payments decreased the Series E 2012 Bond by \$15,000 from the prior year.

The District's net position decreased between December 2014 and 2015 \$132,654 with \$774,189 decrease in unrestricted net assets, a \$609,608 increase in net investment in capital assets and a \$31,927 increase in net assets restricted for the loan reserve. The amount restricted for the bond reserve remained the same at \$32,426.

Operating revenues decreased \$2,159 and total operating expenses decreased \$2,040 between December 2014 and 2015. The District realized a loss from operations of \$109,699, after recognizing depreciation expense of \$143,984 in 2015 compared to a realized loss from operations of \$83,982 after recognizing depreciation of \$118,386 in 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The District realized net non-operating expenses of \$32,955 in 2015 and \$17,024 in 2014. The higher non-operating expenses in 2015 were primarily related to additional interest expense from the KDHE loan.

Total cash on deposit at the end of the year was \$228,190 which was a decrease of \$105,337 over the cash on deposit at December 31, 2014. Ending net position was \$2,076,327 and \$2,208,981 as of December 2015 and 2014 respectively and the change in net position was (\$142,654) and (\$61,006) for the periods then ended.

Additional Information

Total funds spent for Capital Improvement Projects in 2015 were \$402,176 of which \$288,133 was associated with the Phase II expansion of the infrastructure, \$45,613 was spent on booster station improvements, \$10,860 was for a new generator, \$3,865 for new computers, and the rest was for additional infrastructure improvements.

During 2015, the District continued with their mandatory conservation measures. These directives have not been lifted since their inception in 2008 and most likely will not be in the near future. Drought conditions of the past few years have depleted the water table in Abilene's well field. It will take considerable rainfall to replenish the water supply. Annual water purchased in 2015 was 73,119,000 gallons, 43,892,200 gallons were sold, 1,460,000 were used in flushing or recognized leaks, and the remainder was a 38% water loss. Two new benefit units were added in 2015 and one forfeited for a total of 681 benefit units in the District.

The Phase III project began with a bid letting in October 2014. The final inspection took place on July 15, 2015. The project consisted of 6 miles of 8" High Density Poly Ethylene (HDPE) main distribution water line and an additional 2 miles of HDPE replacement line. Improvements provide a second connection with the City of Abilene's water source and renovations to Pumping Stations #21 and #25 as well as improved water pressure. The project was funded by a \$1,037,724, 2.43%, twenty year loan from the Kansas Public Water Supply Loan Fund.

In May 2015 we completed the GPS mapping of the District. The information provided by this mapping is very useful now that all Rural Water Systems are required to be a member of Kansas One-Call. One-call notifications can be addressed at the office to determine if an on-site visit is necessary. This eliminates considerable time and travel costs. District employees worked with the Kansas Rural Water Association mapping department to collect data. The Kansas Water Office provided a grant of \$4,000 towards the total cost of \$17,085.

The District has four Booster Pumping Station facilities. One pumping station was constructed in 1996; two in 2005. These stations received renovations which included mortar repair; sealing the exterior; insulation of the interiors and installation of new heating and air systems. Total cost of renovations was \$45,613. The fourth pumping station was new in 2012 as a part of the second river connection with the City of Abilene.

Overflows were not installed at the time of construction in the 1970's as they were not a requirement at that time. As a matter of safety for employees and the stability of the standpipe should an overflow of water occur, the Board determined that overflows be installed on three of the four standpipes. The Navarre standpipe overflow was installed at the time it was relocated in 2001. Total cost of installation for the remaining three was \$9,230.

The District is 40+ years old and the infrastructure is in constant need of upkeep. In 2015 we installed one mile of 4" HDPE on Key Road between 1100 Ave. and 1200 Ave. A leaking road bore at the intersection of Hwy 4 and Solomon Road was also replaced. Total cost \$47,329 and \$2,969 respectively. Ten mainline valves were also replaced.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In November the District sold two older generators and purchased a used CAT 30KW generator at a cost of \$10,860. All four booster pumping stations are wired to accommodate the new generator.

The District carries insurance coverage from EMC Insurance Companies. Due to changing circumstances we now have earthquake coverage on District facilities in the event any losses should occur. Coverage is subject to a 5% deductible. In the event of loss of personal information the District has Data Compromise Coverage. The balance of insurance coverages include Property, General Liability, Inland Marine (excavator, skid loader, mower), Automobile, Crime/Fidelity, Workers' Compensation and Directors and Officers Errors and Omissions. This insurance package cost \$18,454 for 2015. EMC pays a dividend each year and in 2015 RWD #2 received \$4,645.

Bobcat offers a special program to municipalities that allows the District to lease equipment at a cost effective rate. The District has participated in this program for several years. We have leased both pieces of new equipment at a cost of \$1,670 for the years 2015 and 2016.

Office computers are generally replaced every five years to keep up with the ever changing world of electronics. Two computers were purchased and installed for \$3,865.

The financial consulting firm for the District, *Ranson Financial Consultants, LLC*, evaluated and audited financial statements for the water utility fund for the District for fiscal years 2012 through 2014 and performed a water rate study. They recommended that a rate increase was needed to fund all forecasted expenditures, new and existing debt service and 50% of the Districts depreciation expense. There was no cost to the District for the services performed by *Ranson Financial Consultants, LLC*. Funding for this planning assistance was provided through a contractual agreement between the *Kansas Department of Health and Environment Capacity Development Program* and *Ranson Financial Consultants LLC*.

Maintaining a 40+ year old rural water system requires investment in infrastructure to insure safe, reliable water service. As the District evolves, so too do the costs of providing adequate staffing, service and compliance. The Office/Warehouse facility in Abilene was purchased in 2014 and was paid for from the Capital Improvement Fund and is not part of any debt service. This facility is the first permanent home for the District since its formation in 1972.

In 2012, the District obtained \$420,000 of Series E, 2012 Revenue Bonds to refund the USDA Rural Development Loan. A reserve amount of \$32,426 is required to be maintained until the debt is paid in full.

In an effort to be frugal, operating costs were kept to a minimum in 2015.

The board has designated \$214,846 of unrestricted net assets for capital improvements and \$4,773 for debt payment. Capital contributions are benefit units sold during 2015.

This financial report is designed to provide a general overview of the District's finances and demonstrate the District's commitment to public accountability. If you have any question about this report or would like to request additional information, contact the District office at 804 S. Buckeye, Abilene, Kansas 67410.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF NET POSITION
DECEMBER 31,

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents		
Checking Accounts	\$ 8,571	\$ 15,454
Money Market Accounts	219,619	318,073
Total Cash and Cash Equivalents	<u>228,190</u>	<u>333,527</u>
Accounts Receivable - Net	37,514	37,272
Prepaid Expenses	4,145	-
Inventory	24,356	15,549
Total Current Assets	<u>294,205</u>	<u>386,348</u>
Noncurrent Assets		
Construction in Progress	1,175	733,639
Capital Assets		
Water System and Equipment	4,331,145	3,291,965
Abilene Treatment Plant	924,194	924,194
Navarre Project	263,975	263,975
Westar Project	56,170	56,170
Building	229,502	229,502
Office Equipment and Vehicles	118,242	109,935
Accumulated Depreciation	<u>(2,833,877)</u>	<u>(2,700,271)</u>
Total Capital Assets	3,089,351	2,175,470
Certificate of Deposit - Bond Reserve	32,725	32,595
Loan Reserve - KDHE	103,772	71,845
Total Noncurrent Assets	<u>3,227,023</u>	<u>3,013,549</u>
Total Assets	<u>3,521,228</u>	<u>3,399,897</u>
DEFERRED OUTFLOWS OF RESOURCES		
Bond Discount, net of accumulated amortization	<u>8,864</u>	<u>9,321</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 28,948	\$ 88,728
Payroll Taxes Payable	4,024	3,847
Water Protection and Clean Water Fees Payable	744	713
Sales Tax Payable	145	145
Accrued Interest Payable	9,850	1,023
Compensated Absences	2,330	2,330
Current Portion of Note Payable	15,000	15,000
Current Portion of Loan Payable	10,658	-
Total Current Liabilities	<u>71,699</u>	<u>111,786</u>
Noncurrent Liabilities		
Bond Payable - Series E 2012	370,000	385,000
Kansas Public Water Supply Loan	1,037,724	718,451
Less Current Portion	<u>(25,658)</u>	<u>(15,000)</u>
Total Noncurrent Liabilities	<u>1,382,066</u>	<u>1,088,451</u>
Total Liabilities	<u>1,453,765</u>	<u>1,200,237</u>
NET POSITION		
Net Investment in Capital Assets	1,681,627	1,072,019
Restricted for Bond Reserve	32,426	32,426
Restricted for Loan Reserve	103,772	71,845
Unrestricted	258,502	1,032,691
Total Net Position	<u>\$ 2,076,327</u>	<u>\$ 2,208,981</u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES		
Monthly Minimum	\$ 271,711	\$ 268,335
Water Revenues	<u>202,823</u>	<u>208,358</u>
TOTAL OPERATING REVENUES	<u>474,534</u>	<u>476,693</u>
OPERATING EXPENSES		
Analysis of Water System	1,021	1,335
Bad Debt Expense	-	1,101
Clean Drinking Water Fee	1,333	1,388
Dues and Subscriptions	735	730
Electricity	27,501	24,885
Employee Benefits	4,163	4,388
Insurance	18,241	18,412
Legal, Accounting and Engineering Fees	14,386	37,120
Maintenance Supplies	20,726	1,179
Miscellaneous	229	237
Office Expense	3,076	6,689
Office Maintenance	1,983	-
Payroll Taxes	12,961	12,095
Postage	3,704	4,666
Printing	1,571	2,338
Rent and Lease Expense	3,807	4,384
Repairs and Maintenance	38,997	32,432
Salaries and Wages	157,950	149,490
Telemetry System	2,379	1,407
Telephone	1,898	2,152
Training	1,046	315
Travel	104	1,149
Truck Expense	20,755	22,210
Water, Sewer and Trash Expense	600	276
Water Purchases - Abilene	<u>101,083</u>	<u>111,911</u>
TOTAL OPERATING EXPENSES	<u>440,249</u>	<u>442,289</u>
INCOME FROM OPERATIONS BEFORE DEPRECIATION	<u>34,285</u>	<u>34,404</u>
Depreciation	<u>(143,984)</u>	<u>(118,386)</u>
OPERATING INCOME (LOSS)	<u>(109,699)</u>	<u>(83,982)</u>
NON-OPERATING REVENUES AND EXPENSES		
Interest Income	829	1,401
Other Income	9,472	15,149
Other Expense	(1,008)	(2,841)
New Office Expenses	(8,412)	(4,130)
Gain (Loss) on Sale of Assets	1,500	(117)
Interest Expense - Bond	(12,545)	(12,727)
Interest Expense - KDHE Loan	(20,784)	(13,759)
Service Fees on Debt	<u>(2,007)</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(32,955)</u>	<u>(17,024)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(142,654)</u>	<u>(101,006)</u>
Capital Contributions	<u>10,000</u>	<u>40,000</u>
CHANGE IN NET POSITION	<u>(132,654)</u>	<u>(61,006)</u>
NET POSITION, BEGINNING	<u>2,208,981</u>	<u>2,269,987</u>
NET POSITION, ENDING	<u><u>\$ 2,076,327</u></u>	<u><u>\$ 2,208,981</u></u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 474,292	\$ 476,183
Cash Payments to Suppliers for Goods and Services	(340,437)	(235,536)
Cash Payments to Employees and Professional Contractors for Services	(172,336)	(176,840)
Net Cash Provided (Used) by Operating Activities	<u>38,481</u>	<u>63,807</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(402,176)	(320,226)
Construction Work in Progress	(1,175)	(730,323)
Sale of Equipment	1,500	1,250
Proceeds from Loan	288,133	632,847
Principal Paid on Bond	(15,000)	(15,000)
Interest Paid on Bond	(12,120)	(12,270)
Other Capital Activities	52	8,153
Change in Reserves	130	71,845
Interest and Services Fees Paid on Loan	(13,861)	(13,759)
Capital Contributions	10,000	40,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(144,517)</u>	<u>(337,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	699	1,401
Net Cash Provided (Used) by Investing Activities	<u>699</u>	<u>1,401</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 (105,337)	 (272,275)
Cash and Cash Equivalents at January 1	333,527	605,802
Cash and Cash Equivalents at December 31	<u>\$ 228,190</u>	<u>\$ 333,527</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from Operations (before depreciation)	\$ 34,285	\$ 34,404
(Increase) Decrease in Receivables	(242)	(510)
(Increase) Decrease in Prepaid Expenses	(4,145)	-
(Increase) Decrease in Inventory	(8,807)	(2,008)
Increase (Decrease) in Payables	(59,572)	31,921
Net Cash Provided by Operating Activities	<u>\$ 38,481</u>	<u>\$ 63,807</u>

The notes to the financial statements are an integral part of these statements.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2

ABILENE, KANSAS
DECEMBER 31, 2015

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rural Water District No. 2, Dickinson County, Kansas, was declared incorporated by the Board of Commissioners of Dickinson County, Kansas, on April 21, 1972 as a quasi-municipal Corporation under Kansas Statute K.S.A. 82a-612 et seq, for the purpose of providing a water supply system for the landowners within the areas of the District. The following is a summary of the District's significant accounting policies.

Basis of Accounting

The water district is a governmental organization operated as a business (proprietary) type entity. The District's financial information is accounted for using the economic resources measurement focus and the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as reimbursements for joining the Water District.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all bank deposit accounts, money market accounts and certificates of deposits classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties. At December 31, 2015 and 2014, cash and cash equivalents consisted of demand and money market accounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Capital Assets

Capital assets purchased or built are capitalized at cost or estimated historical cost if actual cost is unavailable. The District's policy is to capitalize all assets with a cost of \$500 or more and a useful life exceeding one year. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of assets are as follows: buildings – 40 years, water system infrastructure – 40 - 50 years, and equipment – 5 to 20 years.

Inventory

Inventory is stated at cost and consists of supplies to set water meters and items over \$100 when purchased.

Noncurrent Assets

Noncurrent assets primarily include construction in process, capital assets, and reserve for bonds and loans. The amounts placed in the reserve often exceed the amount legally required to be restricted as they may include interest earned and other monies designated by the board to be set aside to meet future obligations. The amounts legally required to be restricted are included in the bonds payable Note 6 and loans payable Note 7.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Payable

Accounts payable consist of invoices received from vendors for services or products received during the period but not yet paid.

Taxes

The District is exempt from federal and state income and property taxes.

Reclassifications

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Date of Management's Review

Management has performed an analysis of the activities and transactions subsequent to December 31, 2015 to determine the need for any adjustments to and / or disclosures within the audited financial statements. Management has performed their analysis through May 6, 2016, which is the date at which the financial statements were available to be issued.

NOTE 2 – DEPOSITORY SECURITY

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions with maturities of not more than two years; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank Chartered in Kansas or any other state, any trust company chartered in Kansas or any other state, any national bank, or any centralized securities deposit wherever located within the United State which is not owned directly or indirectly by any parent corporation of the deposit bank, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods." All deposits were legally secured at December 31, 2015 and 2014.

At December 31, 2015 the District's carrying amount of deposits was \$260,915 and the bank balances were \$261,597. The bank balances were entirely covered by federal depository insurance.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2015:

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NOTES TO THE FINANCIAL STATEMENTS**NOTE 2 – DEPOSITORY SECURITY (CONTINUED)**

<u>Financial Institution</u>	<u>Demand Deposits on 12/31/2015</u>	<u>Time Deposits on 12/31/2015</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>	<u>Unsecured Deposits</u>
Pinnacle Bank	\$228,872	-	\$228,872	-	-
Citizens State Bank	-	\$32,725	\$32,725	-	-

At December 31, 2014 the District's carrying amount of deposits was \$366,122 and the bank balances were \$560,724. Deposits at one bank exceeded the Federal Depository Insurance Corporation (FDIC) limit and the deposits in excess of FDIC limits were more than 5% of total bank balances, which results in a concentration of credit risk per GASBS 40, paragraph 11. Of the bank balances, \$282,595 was covered by federal depository insurance and \$278,129 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

The following is a comparison of depository security with balances on deposit with the District's designated depositories at December 31, 2014:

<u>Financial Institution</u>	<u>Demand Deposits on 12/31/2014</u>	<u>Time Deposits on 12/31/2014</u>	<u>FDIC Coverage</u>	<u>Pledged Securities</u>	<u>Unsecured Deposits</u>
Pinnacle Bank	\$528,129	-	\$250,000	\$278,129	-
Citizens State Bank	-	\$32,595	\$32,595	-	-

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are customer water bills that have been invoiced but remain unpaid. The balance is shown net of the allowance for doubtful accounts. Using past payment history and the aging report, the allowances as of December 31, 2015, and 2014 have been determined to be zero.

The following is an aging of accounts receivable for the District at December 31, 2015 and 2014:

<u>Accounts Receivable</u>	<u>Total</u>	<u>Current</u>	<u>Over 30 Days</u>
2015	\$37,514	\$36,670	\$844
2014	\$37,272	\$36,431	\$841

NOTE 4 – CAPITAL ASSETS

Financial statements issued for 1974 and prior periods reported only cash receipts and disbursements for the period covered. Historical costs for the District and financing received from grants and land owners were not accumulated. The total cost of the water system's depreciable property was determined to be \$2,145,359. This cost is being depreciated over fifty (50) years useful life, which began on October 1, 1975. Other assets are being depreciated with useful lives ranging from five years for vehicles and computers to 50 years for water distribution system upgrades and additions.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2

ABILENE, KANSAS
DECEMBER 31, 2015

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Capital Asset Activity for the year ended December 31, 2015 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets Being Depreciated:				
Abilene Treatment Plant	\$ 924,194	\$ -	\$ -	\$ 924,194
Office Equipment	31,855	3,865	(5,489)	30,231
Vehicles & Equipment	78,080	10,860	(929)	88,011
Office / Warehouse	229,502	-	-	229,502
Distribution System	3,612,110	1,043,140	(3,960)	4,651,290
Total Capital Assets Being Depreciated	4,875,741	1,057,865	(10,378)	5,923,228

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Less Accumulated Depreciation For:

Abilene Treatment Plant	(298,823)	(18,483)	-	(317,306)
Office Equipment	(11,722)	(2,952)	5,489	(9,185)
Vehicles and Equipment	(23,846)	(13,007)	929	(35,924)
Office/Warehouse	(2,393)	(5,738)	-	(8,131)
Distribution System	(2,363,487)	(103,804)	3,960	(2,463,331)
Total Accumulated Depreciation	(2,700,271)	(143,984)	10,378	(2,833,877)
Net Being Depreciated	2,175,470	913,881	-	3,089,351
Total Capital Assets	\$ 2,175,470	\$ 913,881	\$ -	\$ 3,089,351

Capital Asset Activity for the year ended December 31, 2014 was as follows:

	Beginning Balance	Capital Acquisitions / (Depreciation)	(Sales) / Disposals	Ending Balance
Capital Assets Being Depreciated:				
Abilene Treatment Plant	\$ 924,194	\$ -	\$ -	\$ 924,194
Office Equipment	13,862	17,993	-	31,855
Vehicles & Equipment	39,844	42,336	(4,100)	78,080
Office / Warehouse	-	229,502	-	229,502
Distribution System	3,581,715	30,395	-	3,612,110
Total Capital Assets Being Depreciated	4,559,615	320,226	(4,100)	4,875,741
Less Accumulated Depreciation For:				
Abilene Treatment Plant	(280,339)	(18,484)	-	(298,823)
Office Equipment	(9,766)	(1,956)	-	(11,722)
Vehicles and Equipment	(21,073)	(5,507)	2,734	(23,846)
Office/Warehouse	-	(2,393)	-	(2,393)
Distribution System	(2,273,441)	(90,046)	-	(2,363,487)
Total Accumulated Depreciation	(2,584,619)	(118,386)	2,734	(2,700,271)
Net Being Depreciated	1,974,996	201,840	(1,366)	2,175,470
Total Capital Assets	\$ 1,974,996	\$ 201,840	\$ (1,366)	\$ 2,175,470

Depreciation expense for the years ended December 31, 2015 and 2014 was \$143,984 and \$118,386 respectively.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2015

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – BUDGETS AND BUDGETARY ACCOUNTING

The District is not required to adopt a legal budget; therefore, no budgetary comparison is prepared as a financial statement. The Board approves an estimated budget each year per K.S.A. 82a-628, which is used by management to internally monitor the District's expenditures and is presented as supplementary information.

NOTE 6 – BONDS PAYABLE

On June 15, 2012, the district issued \$420,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series E 2012 with effective interest rates ranging from 1.00% to 4.2%. The new bond issue paid-off the outstanding note with the United States Department of Agriculture, Rural Development. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2012 and maturing in 2035.

2012 Bonds Payable Information:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2016	15,000	11,895	26,895
2017	15,000	11,670	26,670
2018	15,000	11,445	26,445
2019	15,000	11,145	26,145
2020	15,000	10,845	25,845
2021-2025	75,000	48,900	123,900
2026-2030	95,000	36,600	131,600
2031-2035	<u>125,000</u>	<u>17,520</u>	<u>142,520</u>
Totals	<u>\$ 370,000</u>	<u>\$ 160,020</u>	<u>\$ 530,020</u>

Issuance costs of \$14,412 were paid and expensed at the time this revenue bond was issued. The bonds were issued at a discount of \$10,000 which is amortized and charged to interest expense over the life of the bonds using the straight-line method. Interest expense for 2015 and 2014 was \$457 and \$456 respectively. A bond reserve account of \$32,426 is required to be maintained. \$32,725 is segregated as a Certificate of Deposit at Citizens State Bank and is presented as a noncurrent asset in the statements of net position.

NOTE 7 – LOANS PAYABLE

On December 21, 2011, the district entered into a Loan Agreement with the Kansas Department of Health and Environment (KDHE) for a Kansas Public Water Supply Loan not to exceed \$1,100,742, for the purpose of furnishing a public water supply project. Funding of the loan was provided by the Environmental Protection Agency through a Capitalization Grant for Drinking Water State Revolving Fund. Interest on the loan is to be 2.43% per annum. The loan is held at KDHE until such time the District submits an approved request for reimbursement. In 2014, the District received total loan disbursements of \$718,451 which consisted of \$632,847 deposited to the District's accounts to cover expenses incurred, \$71,845 for the loan reserve which is held at KDHE and \$13,759 of loan closing costs. No payments were due until the construction was completed. The first amendment to the loan agreement was effective September 16, 2014 and established the future payment schedule of the loan. Interest payments are due semi-annually on February 1 and August 1 and principal payments are due starting on February 1, 2016 and maturing in 2035. In 2015, the District received total loan disbursements of \$319,272 which consisted of \$288,133 deposited to the District's accounts to cover expenses incurred, \$31,927 increase to the loan reserve which is held at KDHE and \$788 was applied to the loan reserve. The second amendment to the loan agreement was effective September 2, 2015

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2015

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – LOANS PAYABLE (CONTINUED)

and decreased the original loan amount by \$63,018 bringing the new loan balance to \$1,037,724 and established a revised future payment schedule.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Service Fee</u>	<u>Total Payment</u>
2016	41,000	21,237	3,574	65,811
2017	41,843	20,516	3,452	65,811
2018	42,866	19,640	3,305	65,811
2019	43,914	18,743	3,154	65,811
2020	44,987	17,824	2,999	65,810
2021-2025	241,981	74,530	12,541	329,052
2026-2030	273,042	47,942	8,067	329,051
2031-2035	308,091	17,942	3,019	329,052
Totals	<u>\$ 1,037,724</u>	<u>\$ 238,374</u>	<u>\$ 40,111</u>	<u>\$ 1,316,209</u>

NOTE 8 – DEBT SERVICE RATIO

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the year ending:

	<u>12/31/2015</u>	<u>12/31/2014</u>
Change in Net Position	\$ (132,654)	\$ (61,006)
Interest Expense	33,329	26,486
Depreciation	143,984	118,386
Less Capital Contributions	<u>(10,000)</u>	<u>(40,000)</u>
Total Revenue Available for Debt Service	<u>\$ 34,659</u>	<u>\$ 43,866</u>
Debt Service Payments	27,120	27,270
Debt Service Ratio	<u>1.28</u>	<u>1.61</u>

NOTE 9 – LONG-TERM DEBT SCHEDULE

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2015.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-15</u>	<u>2015 Additions</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-15</u>	<u>Interest Paid In 2015</u>
2012 Bond	06-15-12	420,000	385,000		15,000	370,000	12,120
KPWSLF	9-2-15 [^]	<u>1,037,724</u>	<u>-</u>	<u>1,037,724</u>	<u>-</u>	<u>1,037,724</u>	<u>11,925</u>
Total Indebtedness		<u>\$ 1,457,724</u>	<u>\$ 385,000</u>	<u>\$ 1,037,724</u>	<u>\$ 15,000</u>	<u>\$ 1,407,724</u>	<u>\$ 24,045</u>

[^] - This is the date and amount of the 2nd amendment to the loan as noted in Note 7 above.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
ABILENE, KANSAS
DECEMBER 31, 2015

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – LONG-TERM DEBT SCHEDULE (CONTINUED)

The following schedule shows the changes in long-term debt and related maturities as of December 31, 2014.

<u>Description</u>	<u>Date Issued</u>	<u>Original Amount</u>	<u>Outstanding 1-1-14</u>	<u>Principal Payments</u>	<u>Outstanding 12-31-14</u>	<u>Interest Paid In 2014</u>
2012 Bond	6-15-12	<u>420,000</u>	<u>400,000</u>	<u>15,000</u>	<u>385,000</u>	<u>12,270</u>
Total Indebtedness		<u>\$ 420,000</u>	<u>\$ 400,000</u>	<u>\$ 15,000</u>	<u>\$ 385,000</u>	<u>\$12,270</u>

NOTE 10 - RETIREMENT PLAN

The district provides annuities for its eligible full-time employees. The District contributes 3% of the employee's salary to their annuity. If employment is terminated, the annuity remains the property of the employee. In 2015 and 2014, the District contributed \$1,493 and \$1,591 respectively to the retirement plan. The annuities are with the Lord Abbett Company.

NOTE 11 – LITIGATION

There were no legal actions involving the District as of December 31, 2015 and through the date of this report that require disclosure.

NOTE 12 - COMPENSATED ABSENCES POLICY

The District provides sick leave for their eligible full-time employees at a rate of ½ day per pay period. These days may be carried forward to future years. If the employment is terminated, the sick leave is lost. Vacation compensation for eligible full-time employees is earned after one year of employment, accumulates, and any unused is paid at termination. After one year, 5 days are earned; for two through twenty years of service 10 days are earned each year; and for over twenty years, 15 days of vacation are earned. At December 31, 2015 and 2014, the value of accrued vacation was \$2,330.

NOTE 13– DESIGNATIONS OF UNRESTRICTED NET ASSETS

As of December 31, 2015 the Board of Directors has designated a reservation of unrestricted net assets for capital improvements in the amount of \$214,846 and for debt payment in the amount of \$4,773. At December 31, 2014, capital improvements and debt service were designated at \$283,731 and \$4,617 respectively.

NOTE 14 – RISK MANAGEMENT

Dickinson County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2

ABILENE, KANSAS

DECEMBER 31, 2015

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 – RELATED PARTIES

All the members of the board of directors and all but one employee are water district customers. Other than payment for water and approved salaries and wages, no material transactions occurred in 2015 or 2014 between the District and the directors and employees. All were current for the year ended December 31, 2015 on their water payments.

SUPPLEMENTARY INFORMATION

DICKINSON COUNTY RURAL WATER DISTRICT NO. 2
BUDGET REPORT - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015

OPERATING REVENUES	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Monthly Minimum	\$ 269,742	\$ 271,590	\$ 1,848
Water Revenues	208,503	202,702	(5,801)
TOTAL OPERATING REVENUES	<u>478,245</u>	<u>474,292</u>	<u>(3,953)</u>
EXPENDITURES			
Analysis of Water System	1,100	1,021	(79)
Clean Drinking Water Fee	1,390	1,302	(88)
Dues and Subscriptions	730	735	5
Electricity	24,000	27,501	3,501
Employee Benefits	13,148	4,163	(8,985)
Insurance	19,000	18,241	(759)
Legal, Accounting and Engineering Fees	12,200	14,386	2,186
Maintenance Supplies	2,000	20,726	18,726
Miscellaneous	1,000	229	(771)
Office Expense	3,500	3,076	(424)
Office Maintenance	6,000	1,983	(4,017)
Payroll Taxes	11,000	12,784	1,784
Postage	4,500	3,704	(796)
Printing	3,000	1,571	(1,429)
Rent / Lease Expense	4,985	3,807	(1,178)
Repairs and Maintenance	37,792	30,622	(7,170)
Salaries & Wages	153,613	162,095	8,482
Telemetry System	3,660	2,379	(1,281)
Telephone	-	1,898	1,898
Training	2,300	1,046	(1,254)
Travel	200	104	(96)
Truck Expense	29,000	20,755	(8,245)
Water, Sewer and Trash Expense	640	600	(40)
Water Purchases - Abilene	113,000	101,083	(11,917)
TOTAL OPERATING EXPENDITURES	<u>447,758</u>	<u>435,811</u>	<u>(11,947)</u>
DEBT RETIREMENT:			
Principal Paid on Bond	21,060	15,000	6,060
Interest on Bond	12,120	12,120	-
Interest on Loan	-	11,925	11,925
Service Fee on Loan	-	1,936	1,936
TOTAL EXPENDITURES	<u>480,938</u>	<u>476,792</u>	<u>4,146</u>
OTHER INCOME (EXPENSES)			
New Benefit Units	-	10,000	10,000
Interest Income	1,000	699	(301)
Other Income and (Expense)	-	52	52
Loan Reserve	-	130	130
Capital Improvements	(118,100)	(402,176)	(284,076)
Sale of Assets	-	1,500	1,500
Proceeds from Loan	-	288,133	288,133
Construction in Progress	-	(1,175)	(1,175)
TOTAL OTHER INCOME (EXPENSE)	<u>(117,100)</u>	<u>(102,837)</u>	<u>14,263</u>
INCREASE (DECREASE) IN CASH	<u>\$ (119,793)</u>	<u>\$ (105,337)</u>	<u>\$ 14,888</u>